

**REBUTTAL TESTIMONY OF
WALTER E. EDGE Jr. MBA CPA
CONSULTING DEPARTMENT DIRECTOR
BACON & EDGE p.c.**

**for
THE NARRAGANSETT BAY COMMISSION**

DOCKET # 3483

March 20, 2003

1 **Q. Good morning Mr. Edge. Would you please give your name and business**
2 **address for the record?**

3 A. Certainly, my full name is Walter Edward Edge Jr. MBA CPA. I work for the
4 accounting/consulting firm of Bacon & Edge p.c. at One Worthington Road, Cranston
5 R. I. 02920. Bacon & Edge (B&E) is a full service accounting firm that specializes in
6 municipal and utility accounting/consulting.

7

8 **Q. Are you the same Walter E. Edge Jr. who filed direct testimony in this docket**
9 **(#3483) and has testified as an expert accounting and rate witness in previous rate**
10 **filings for Narragansett Bay Commission (NBC)?**

11 A. Yes.

12

13 **Q. What is the purpose of your rebuttal testimony in this docket?**

14 A. I have read the Division's prefiled testimony of Mr. Thomas Catlin, Mr. David
15 Stearns and Mr. Alberico Mancini. My rebuttal testimony will present my observations
16 and concerns relating to the Division's positions in this docket.

17

18 **Q. How would you like to start?**

19 A. I believe that Mr. Catlin's testimony is the appropriate place to start.

20

21 **Q. What are your observations and concerns relating to Mr. Catlin's testimony?**

22 A. Mr. Catlin has identified certain areas within the NBC testimony that require
23 additional consideration but for the most part he has accepted NBC's filing as filed. Mr.
24 Catlin has raised issues with the following calculations:

25

- 26 1. Employee Levels and Payroll Related Expense
- 27 2. Worker's Compensation – Old Claims
- 28 3. Grant Funded Personnel Costs
- 29 4. Sludge Disposal Costs
- 30 5. Bad Debt Expense
- 31 6. Management/Audit Services

- 1 7. Debt Service
- 2 8. Electric Expense
- 3 9. Operating Reserve

4

5 **Q. What is the issue raised with relation to Employee Levels and Payroll Related**
6 **Expense?**

7 A. Mr. Catlin has calculated a turn-over allowance of 2.8% (7/250) of the number of
8 positions requested by NBC which results in a 2.8% reduction in rate year salary dollars.
9 I believe that his turn over allowance is excessive and that it will result in a shortfall of
10 revenue requirement for the rate year.

11

12 **Q. Why do you believe that Mr. Catlin's adjustment is too large?**

13 A. As I stated in my prefiled testimony, NBC has budgeted for more positions in FYE
14 2003 than are requested in this filing, therefore, the number of filled positions is likely to
15 increase in the near future. It should be noted that as of this writing NBC has employed
16 252 employees, two more than the requested level in this docket. Therefore, at this time,
17 NBC is above the employment level requested in this docket.

18

19 In calculating his turn-over allowance Mr. Catlin used the period October thru December
20 2002 when NBC had on average 243 filled positions per month. However, NBC was in
21 the process of filling a number of the vacant positions.

22

23 **Q. Mr. Edge, do you believe in the concept of a turn-over allowance?**

24 A. Yes I do. However, in this case, where there are more positions budgeted (257.8)
25 than requested (250), I believe that by requesting funding for only 250 positions in the
26 filing that I have already provided for a turn over allowance of 2.8 positions.

27

28

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1 **Q. How did you calculate your 2.8 position turn-over allowance and why isn't it 7.8**
2 **positions (257.8-250)?**

3 A. I calculated my 2.8 position turn-over allowance by starting with the number of
4 positions included in NBC's 2003 Operating Budget (257.8 positions). I then subtracted
5 the five positions reimbursed entirely by capital funds, less the 250 positions requested in
6 this filing. The resulting 2.8 positions funded in the operating budget but not requested
7 in this filing represent my original turn-over allowance.

8
9 **Q. Are you now recommending a change to your original turn-over allowance of**
10 **2.8 positions?**

11 A. Yes. After reading Mr. Catlin's testimony I have revisited my initial position. I
12 believe that my original turn-over allowance may be a bit conservative therefore I have
13 amended my initial position as follows:

14
15 I will accept Mr. Catlin's use of seven positions in the turn-over calculation and apply it
16 to the 252.8 (257.8-5.0) budgeted positions funded with operating funds. My new turn-
17 over allowance is 4.2 positions less than the number of positions requested in my initial
18 testimony. Using Mr. Catlin's \$44,732 average salary amount I calculate an appropriate
19 turn-over allowance for this docket of \$187,974 (4.2 X \$44,732). This amount is
20 \$125,251 less than Mr. Catlin's \$313,126 turn over allowance. Therefore, I agree with
21 60% of Mr. Catlin's turn-over allowance.

22
23 **Q. What is the issue with related payroll taxes?**

24 A. The fact that my turn-over allowance is less than Mr. Catlin's turn-over allowance
25 makes it necessary for me to reduce the related payroll taxes adjustment. Since I agreed
26 with 60% of Mr. Catlin's turn-over allowance I will agree with 60% of his related payroll
27 tax adjustment. In other words I would agree with a reduction of payroll taxes of
28 \$72,016 (120,026*60%).

1 **Q. The next area is workers compensation-old claims, what is your position?**

2 A. NBC has already agreed with Mr. Catlin on this issue; therefore I agree.

3

4 **Q. Next is the grant funded personnel costs adjustment, what is your position?**

5 A. NBC has already agreed to this issue; therefore I agree with Mr. Catlin's adjustment.

6

7 **Q. The next issue is Sludge Disposal Costs, do you agree with Mr. Catlin?**

8 A. NBC expects additional costs in this area in the rate year as a result of construction
9 related impacts at the Bucklin Point WWTF; however given that Mr. Catlin's adjustment
10 is only \$13,686 it is not reasonable for NBC to pursue this issue. I accept Mr. Catlin's
11 adjustment.

12

13 **Q. What is your position on bad debt expense?**

14 A. I disagree with Mr. Catlin's adjustment. Part of the problem with this item is the
15 fact that the Division continues to change its position on this issue with the result
16 adversely impacting NBC.

17

18 In Docket #2216 the Commission ordered that NBC was entitled to a certain level of bad
19 debt expense (one half of one percent of the approve cost of service or \$160,000). In the
20 subsequent docket the Division chose to recommend a new approach using the actual test
21 year level of bad debt expense rather than the use of the one half of one percent. NBC
22 agreed with the Division's recommended change.

23

24 In an attempt to avoid issues in this docket, NBC filed for bad debt expense using the
25 actual test year level of bad debts (as recommended by the Division in the previous
26 docket). The Division now disagrees with this approach and has recommended an
27 allowance of \$120,000 instead of NBC's requested \$206,109 (the test year level). The
28 Division explained that the \$120,000 was from NBC and stated "NBC has estimated its
29 ongoing level of bad debts is expected to be **at least** \$120,000 per year". The "at least"
30 portion of this quote is important.

31

1 **Q. Why do you believe that the \$120,000 is inadequate?**

2 A. For a number of reasons. First, the test year level of bad debt write-off was actually
3 \$221,760 with a reduction of the allowance for doubtful accounts in the amount of
4 \$15,651. In other words, my original request of \$206,109 was understated.

5
6 Second, I believe that the test year is the best indicator of the type of activity that will take
7 place in the future. NBC has a full-time legal counsel position that pursues the collection
8 of old accounts receivable. When all collection efforts have been exhausted, and it is
9 determined that the receivable is uncollectible, legal counsel recommends appropriate
10 write-offs.

11
12 The third and most persuasive reason that I believe that the \$120,000 is inadequate is the
13 fact that NBC has made \$136,479 of bad debt write-offs this year through mid March of
14 Fiscal Year ended June 30, 2003. Clearly, NBC could have \$200,000 in write-offs in
15 FYE 2003. I believe that my original position on this issue is correct.

16
17 **Q. What is your position in relation to Mr. Catlin's adjustments to the account**
18 **Management/Audit Services?**

19 A. Mr. Catlin made three adjustments to this account. The first two are minor
20 adjustments (\$13,333 for a three-year amortization of a job assessment study and \$17,665
21 for an adjustment to the US Filter contract) and NBC has agreed to them. The third
22 adjustment is a much more significant adjustment of \$290,000 for a stormwater rate
23 study. It is my understanding that the storm water rate study is no longer required and
24 therefore the \$290,000 is no longer needed. I therefore accept all of Mr. Catlin's
25 adjustments to the Management/Audit Services account.

1 **Q. The adjustments to debt service are very significant. Do you agree with Mr.**
2 **Catlin's debt service adjustments?**

3 A. Yes, I do. Mr. Catlin has decreased NBC's revenue requirement by \$3,614,896 of
4 debt service costs and \$1,206,748 of coverage allowance (see page 15 of Mr. Catlin's
5 testimony) by selecting the TECP approach for future financing of capital projects. NBC
6 prefers this approach and strongly supports Mr. Catlin's testimony in this area.

7
8 Mr. Catlin further reduced the debt service requirement by using a mid-year drawdown
9 approach rather than the beginning of the year approach used in the First Southwest
10 model. Although it is impossible to know when NBC will need to make drawdowns
11 during the year, the mid-year convention use by Mr. Catlin may be reasonable.

12
13 **Q. Do you agree with Mr. Catlin's electric adjustment?**

14 A. Mr. Catlin relied on Mr. Stearn's testimony for his electric expense adjustment.
15 After review of the Division's electric expense adjustment, NBC believes that the
16 Division's adjustment appears to be excessive. Electricity represents 5.7% of NBC's
17 current operating budget and usage will fluctuate as a result of wet weather events. In
18 addition, NBC is concerned that the construction at Bucklin Point will result in additional
19 electric cost in the rate year.

20
21 The Division's calculation of the rate year kWh is based on a multi-year average. NBC
22 feels that the same logic (a multi-year average) should be applied toward the delivery
23 charges for electricity. NBC feels that a two-year average of the delivery cost, rather
24 than the FY 2002 actuals, would better represent the anticipated delivery costs for the rate
25 year.

1 Using the same model created by David Stearns (included in his prefiled testimony as
2 Exhibit DS-1), NBC populated the “Delivery \$/kWh” with the average delivery costs
3 from FY 2001 and FY 2002. This change results in a reduction of the Division’s
4 adjustment to rate year electric expense from \$221,289 to \$170,492 (see Attachment
5 WEE RB-1 & WEE RB-2). NBC is still concerned about this adjustment; however it
6 believes that the \$50,797 reduction in the Division’s electric expense adjustment
7 represents a reasonable and appropriate amount.

8
9 **Q. The last adjustment made by Mr. Catlin was to the operating reserve. Do you**
10 **agree with his adjustment reducing the operating reserve by backing out debt**
11 **service from the calculation?**

12 A. Yes I do.

13
14 **Q. Does that conclude your rebuttal testimony?**

15 A. No. In reading Mr. Mancini’s testimony I was concerned with only one item. Mr.
16 Mancini on page 4 of his testimony states that the “construction cost estimate for Phase I
17 (of the CSO project) is \$281,751,683”. This of course is correct but in addition to the
18 construction cost there are administration, land and contingency costs. On page 5 of Mr.
19 Mancini testimony he mentions the administration and land costs (\$5.7 million) but I did
20 not see any reference to the contingency costs. I would point out that the current total
21 cost estimate for the construction of Phase I of the CSO program, as outlined in my pre-
22 filed testimony, is \$313 million including the construction cost above, land,
23 administration and contingency.

24
25 **Q. Now, does that conclude your rebuttal testimony?**

26 A. Yes.

WEE RB -1

Location	Delivery Cost	Est. kWh in Filing	Delivery \$/kWh	Customer Charge	Total Delivery Cost 2004	Supply Cost \$/kWh 2004	Total Supply Cost 2004	Total Electricity Cost 2004	RIGRT	Total Incl. RIGRT
Field's Pt.	\$ 502,543	15,795,333	0.03182	\$ 2,837	\$ 505,380	\$ 0.04768	\$ 753,121	\$ 1,258,501	\$ 52,438	1,310,939
Bucklin Pt.	248,426	7,636,000	0.03253	2,846	251,272	0.04768	364,084	615,356	25,640	640,996
COB	36,255	905,867	0.04002	753	37,008	0.04768	43,192	80,200	3,342	83,541
IM	36,551	708,284	0.05160	5,194	41,745	0.04768	33,771	75,516	3,146	78,662
Totals	\$ 823,774	25,045,484	0.03289	\$ 11,630	\$ 835,404		\$ 1,194,169	\$ 2,029,573	\$ 84,566	\$ 2,114,138

Rate Year Cost per WEE - 17 \$ 2,284,630

Adjustment to Schedule WEE - 17 \$ (170,492)

= Changes made to DS-1

Average (FY 2001 & FY2002) Itemized Electricity Delivery Cost by Location

Location	Customer Charge	Distribution Charge	Demand Charge	Transm. Charge	Transm. Adj.	Transition Charge	Conservation Charge	HV Meter Discount	HV Delivery Discount	Total Delivery Cost Excl. RIGT	kWh Used	\$ Per kWh
Fields Pt.	\$ 2,837	\$ 191,463	\$ 48,144	\$ 39,194	\$ 43,440	\$ 156,524	\$ 36,168	\$ (11,079)	\$ (11,419)	\$ 495,272	15,566,800	\$ 0.03182
Bucklin Pt.	2,846	93,326	24,660	20,076	21,308	76,389	17,626	(5,592)	(5,853)	244,782	7,524,000	0.03253
COB	753	11,820	4,423	3,772	505	6,269	1,582	-	-	29,124	727,691	0.04002
IM	5,194	35,842									795,202	0.05160
Totals	\$ 11,630	\$ 332,451	\$ 77,227	\$ 63,042	\$ 65,252	\$ 239,182	\$ 55,376	\$ (16,671)	\$ (17,272)	\$ 769,178	\$ 24,613,693	\$ 0.03125